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of Central Intelligence

NIO # 1722/75  
23 July 1975

MEMORANDUM FOR: Mr. Colby

SUBJECT : Support for the President's  
Trip: Implications of Current  
East European Grain Crop  
Forecast

Bill,

Floods and drought have reduced OER's Eastern Europe grain crop forecast by almost 10% in the last month. So far the policy implication is that the various countries involved will manage without increasing US or other Western grain imports, but weather (or politics) may yet this season change all that. So [redacted] in OER has pulled together a mini estimate as back-up for the President's discussions with East European leaders in Warsaw, Helsinki, Bucharest and Belgrade.

[redacted]  
National Intelligence Officer  
for USSR/EE

Attachments

23 July 1975

MEMORANDUM FOR: Mr. Colby

SUBJECT : Support for the President's  
Trip: Implications of Current  
East European Grain Crop Forecast

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NIO/USSR/ [redacted]

25X1

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23 July 1975

MEMORANDUM FOR: Mr. Denis Clift  
Mr. Robert Gates  
NSC Staff

SUBJECT : East European Grain Situation:  
Implications for the President's  
Trip

Denis and Bob,

Here is a free-will offering on the current outlook for the Eastern European grain crop, and our best guess on grain import implications. We were moved by the recent flood/drought combinations in the area to think the estimate might be of use in connection with the President's trip and discussions with East European leaders. [redacted] of CIA's Office of Economic Research wrote the piece.

25X1

I also call to your attention a piece on the current overall Eastern European economic situation, published this morning in OER's Economic Intelligence Weekly. A copy is attached.

25X1

[redacted]  
National Intelligence Officer  
/ for USSR/EE

23 July 1975

MEMORANDUM FOR: Mr. Denis Clift,  
Mr. Robert Gates  
NSC Staff

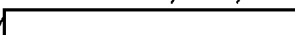
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23 July 1975

MEMORANDUM FOR: Mr. Helmut Sonnenfeldt  
Counselor of the Department  
of State

SUBJECT : East European Grain Situation:  
Implications for the President's  
Trip

Hal,

Here is a free-will offering on the current outlook for the Eastern European grain crop, and our best guess on grain import implications. We were moved by the recent flood/drought combinations in the area to think the estimate might be of use in connection with the President's trip and discussions with East European leaders. [redacted] of CIA's Office of Economic Research wrote the piece.

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[redacted]  
National Intelligence Officer  
for USSR/EE

- 2 -

23 July 1975

MEMORANDUM FOR: Mr. Helmut Sonnenfeldt

SUBJECT : East European Grain Situation:  
Implications for the President's  
Trip

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## EASTERN EUROPE: ECONOMIC SITUATION REPORT

Poor crop weather in July in Eastern Europe portends a disappointing agricultural performance in 1975 and an almost certain slowdown in economic growth. The various Communist regimes had already been braced for a difficult year because of prolonged Western recession and the substantial rise in the price of Soviet raw materials.

### Agriculture: Floods in the South, Drought in the North

The East European governments had been counting on a grain crop even greater than the record 90 million tons of 1974. However, rains, floods, and drought combined forces in early July to dim these hopes. With the harvest under way, torrential rains and flooding hit Romania, Yugoslavia, Hungary, and Czechoslovakia, causing considerable damage to grains. Meanwhile, grain crops in East Germany and fodder crops in Poland were threatened by drought. We have lowered our estimate of the region's grain crop to 86 million tons.

### Impact of Western Recession

Recession among major non-Communist countries has held back Eastern Europe's export sales in 1975, with the decline in volume being hidden by price increases and revaluations of currencies.

*Yugoslavia* purchased three-fourths of its imports from the West in 1974 and, with its more open and less centrally planned economy, is particularly vulnerable to economic developments in the West. Exports to its major Western markets declined in the first quarter compared with a year earlier while imports continued to increase rapidly. Belgrade imposed import restrictions in June. It has requested debt rescheduling on a selective basis, being able so far to finance only two-thirds of the hard currency requirements we estimate for 1975. Growth of industrial production slackened in late spring as a result of earlier import restrictions and deliberate efforts to rein in new investment. In spite of government efforts to curb imports and investment, inflation is still running at 25%. A unique factor in the inflation problem in Yugoslavia is the ability of local worker councils to press for higher wages.

*Romania*, as an exporter of petroleum and a beneficiary of higher world prices, continued its rapid industrial growth through the first quarter. Growth of exports to the West was about the same as in 1974 but, like the others, Romania was

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having difficulty in marketing such goods as textiles and chemicals in the West. Also, Romania is no longer self-sufficient in crude oil and will require increasing imports to utilize its refining capacity. Bucharest in July imposed price increases for various consumer goods and services, ranging from 25% for natural gas to 103% for heating oil.

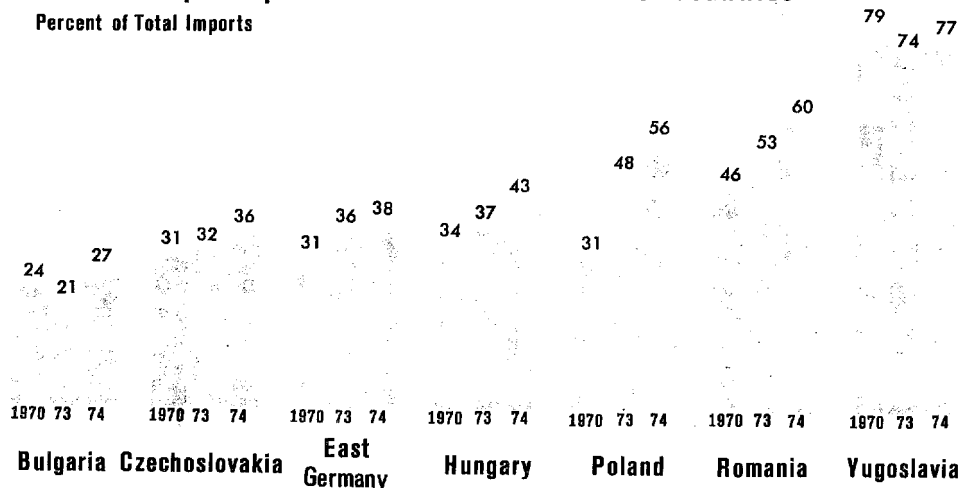
*Poland*, with the advantage of growing foreign demand for raw materials such as coal and sulfur, has been less affected than the others by world economic problems. Prices for its exports to the West actually increased more in 1974 than prices for its imports. Warsaw is having little difficulty in obtaining Western credits, having secured at least \$2.6 billion so far in 1975. The largest deal is the \$1.7 billion in government-guaranteed credits from France arranged during Giscard D'Estaing's visit to Warsaw in June. The regime is still managing to satisfy consumer demand sufficiently to avoid widespread discontent. Adverse consumer reaction to scattered meat shortages last winter and again in June underline the continuing pressure on the regime to step up supplies of quality goods.

*Hungary*, which purchased less than half of its imports from the West in 1974, already has lowered its goals for economic growth and levels of consumption for the next five years. Poor in mineral resources, Hungary is more heavily dependent on trade for its economic progress than are the other East European countries. Exports to the West declined in the first quarter and continued to decline in April and May. The government has been tightening restrictions on imports. Hungary was the only East European country to reduce orders for Western machinery and equipment in January-May 1975 compared with a year earlier.

*Bulgaria, Czechoslovakia, and East Germany* are less dependent on Western imports and have generally been less affected by the recession.

### Eastern Europe: Imports from the Non-Communist Countries

Percent of Total Imports



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Eastern Europe: Trade with the West<sup>1</sup>

Million US \$

	Imports				Exports			
	1973	1974	Jan-Mar 1974	Jan-Mar 1975 <sup>2</sup>	1973	1974	Jan-Mar 1974	Jan-Mar 1975 <sup>2</sup>
<b>Total</b>	<b>10,521</b>	<b>15,311</b>	<b>3,080</b>	<b>4,421</b>	<b>7,828</b>	<b>9,485</b>	<b>2,110</b>	<b>2,337</b>
Bulgaria	408	717	122	243	299	325	83	89
Czecho- slovakia	1,118	1,417	289	385	963	1,139	238	299
East Germany	1,580	2,020	414	559	1,413	1,819	396	457
Hungary	929	1,526	308	461	939	1,115	235	233
Poland	2,605	3,723	778	1,084	1,589	2,029	489	543
Romania	1,164	1,809	362	581	919	1,187	237	306
Yugo- slavia	2,717	4,099	807	1,108	1,706	1,871	432	410

1. Austria, France, Italy, Japan, Sweden, Switzerland, United Kingdom, United States, and West Germany.

Data are from Western sources.

2. Preliminary estimates.

Eastern Europe: Trade with the United States<sup>1</sup>

Million US \$

	Imports				Exports			
	1973	1974	Jan-Mar 1974	Jan-Mar 1975	1973	1974	Jan-Mar 1974	Jan-Mar 1975
<b>Total</b>	<b>839</b>	<b>1,130</b>	<b>302</b>	<b>374</b>	<b>471</b>	<b>807</b>	<b>178</b>	<b>192</b>
Bulgaria	6	22	2	11	5	8	6	9
Czecho- slovakia	72	49	13	12	35	46	8	11
East Germany	28	21	6	2	10	14	3	3
Hungary	33	56	20	30	16	75	7	13
Poland	349	395	104	141	182	266	68	69
Romania	116	277	72	74	56	130	28	18
Yugo- slavia	235	310	85	104	167	268	58	69

1. US data.

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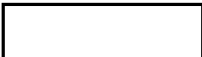
Trade with the United States is dominated by Poland and Yugoslavia, the only countries having Export-Import Bank financing and most-favored-nation status. Romania found its access to Export-Import credits suspended under the 1974 US Trade Act; a Romanian-US trade agreement now awaits legislative action in the Congress.

#### **The Soviet Price Increases**

The stiff price increases for Soviet oil and other raw materials in early 1975 have had their greatest impact on Hungary, Czechoslovakia, and East Germany. Poland with its coal and Romania with its oil have been less affected. Bulgaria has fallen in between. Yugoslavia had been paying world market prices for its Soviet raw materials and has not been affected by the price hikes. The impact on the hardest hit countries has been mitigated – at least in 1975 – by various Soviet concessions. For instance, the Hungarians have benefited from Soviet long-term credits and above-plan deliveries of vital raw materials.

#### **Near-Term Prospects**

We expect the East European regimes to search for additional financing in Western money markets while dampening consumption at home. Indebtedness to the West is high and growing, although not yet a serious problem (except in Yugoslavia). Poland alone may avoid an economic slowdown this year.



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